



HOMES JOBS COMMUNITY

OPPORTUNITY ZONES AND BROWNFIELD REDEVELOPMENT

Spokane | May 30, 2019

National Development Council

Partners in Community Development since 1969

NDC's work focuses on HOMES, JOBS and COMMUNITY. Founded as a national nonprofit in 1969, NDC has worked for almost 50 years fulfilling its mission to increase the flow of capital for investment in low-income communities. NDC directs capital to support the development and preservation of affordable housing, the creation of jobs through training and small business lending and the advancement of livable communities through investment in social infrastructure.

IMPACT AT A GLANCE

\$579M for Affordable Housing	\$704M in New Markets Tax Credit Allocation	\$2.5B in Public-Private Partnership Development	\$210M in Small Business Loans	70K+ Practitioners Trained	100+ TA Client Communities
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Opportunity Zones

OVERVIEW

Established by congress in the Tax Cuts and Jobs Act of 2017

Goal is to spur private sector investment in overlooked communities

Provides tax incentives for investing capital gains

Real estate and operating businesses

A “Light Touch” regulatory framework

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THE BASICS

- **Investments in real estate and operating business, such as:**
 - **Grocery stores**
 - **Manufacturing/industrial businesses**
 - **Healthcare facilities**
 - **Workforce housing**
 - **Co-working spaces**
 - **Hotels**
 - **Incubators**
 - **Research facilities**
 - **Commercial real estate**

Opportunity Zones

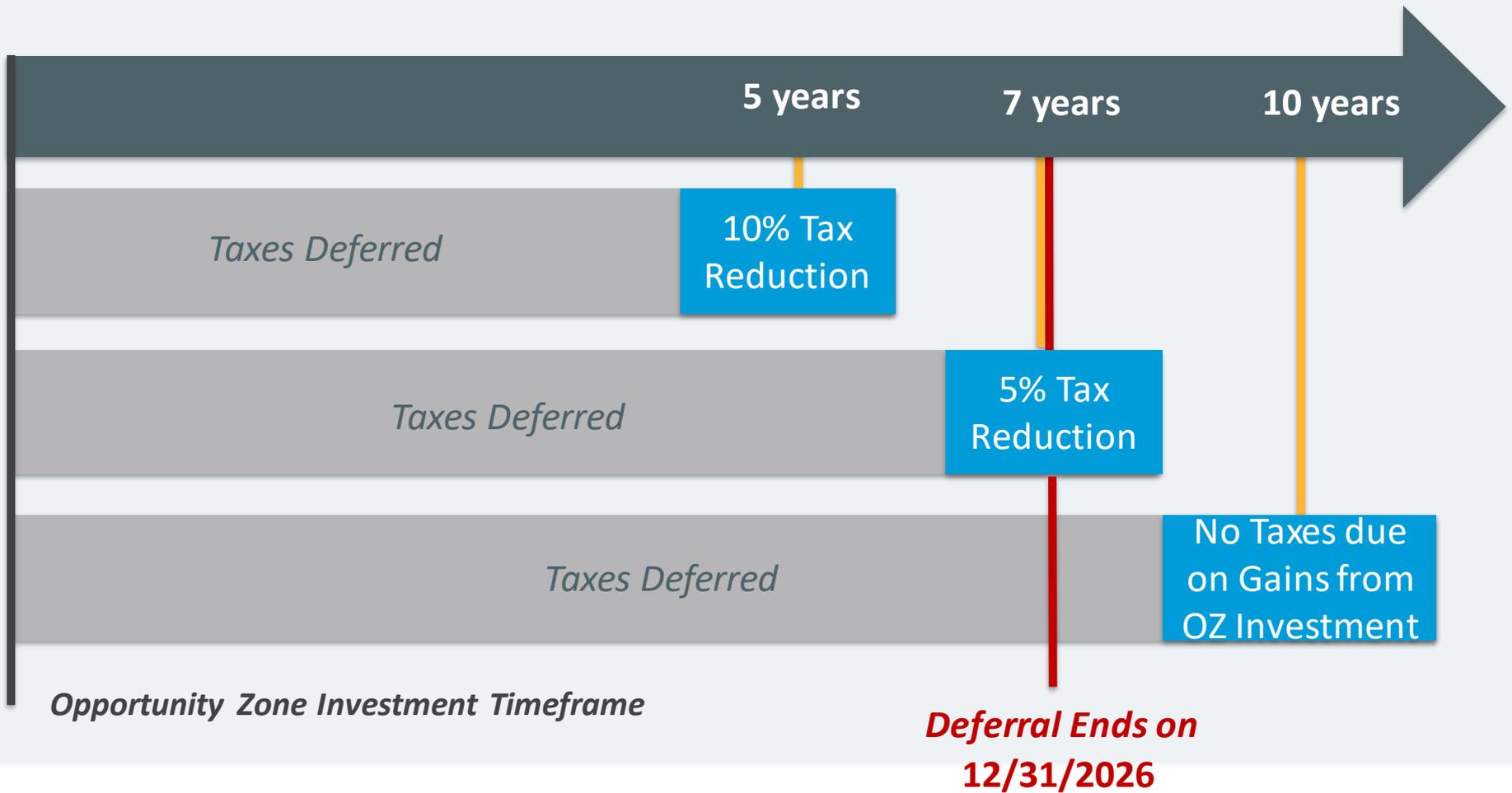
THE BASICS

Provides tax incentives for investors to re-invest unrealized capital gains by:

- **Temporary deferral** of capital gains taxes until 2026
- **Tax reduction** on capital gains (at 5 and 7 years)
- **Elimination of taxes** on gains from OZ investments (if held for 10 years)

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TAX BENEFITS



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HOW IT WORKS

Individual invests capital gains into Opportunity Fund

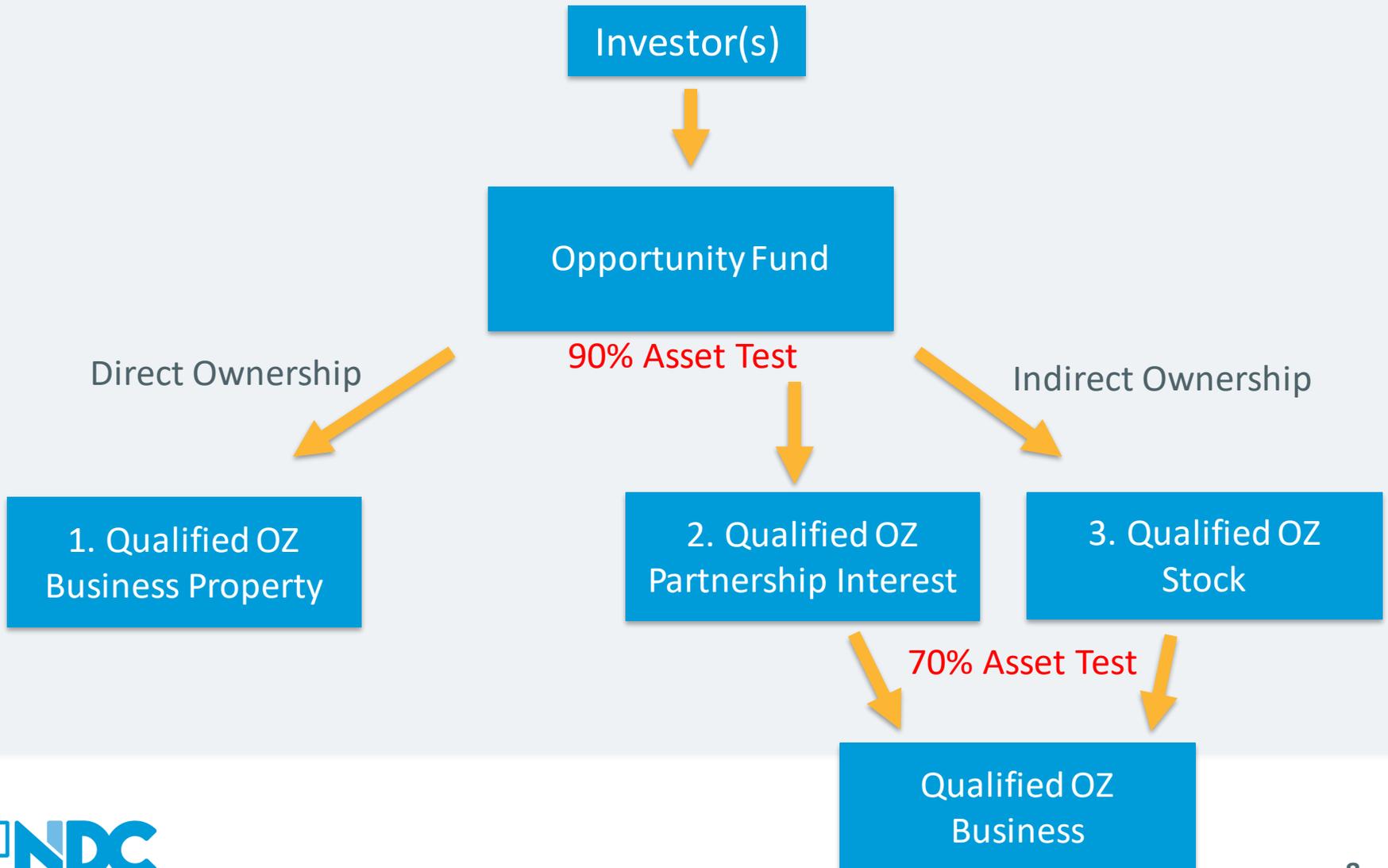
Opportunity Fund invests in qualified Opportunity Zone investments

Qualified investments include:

- Stock or partnership interest in operating business in OZ
- Qualifying property in OZ

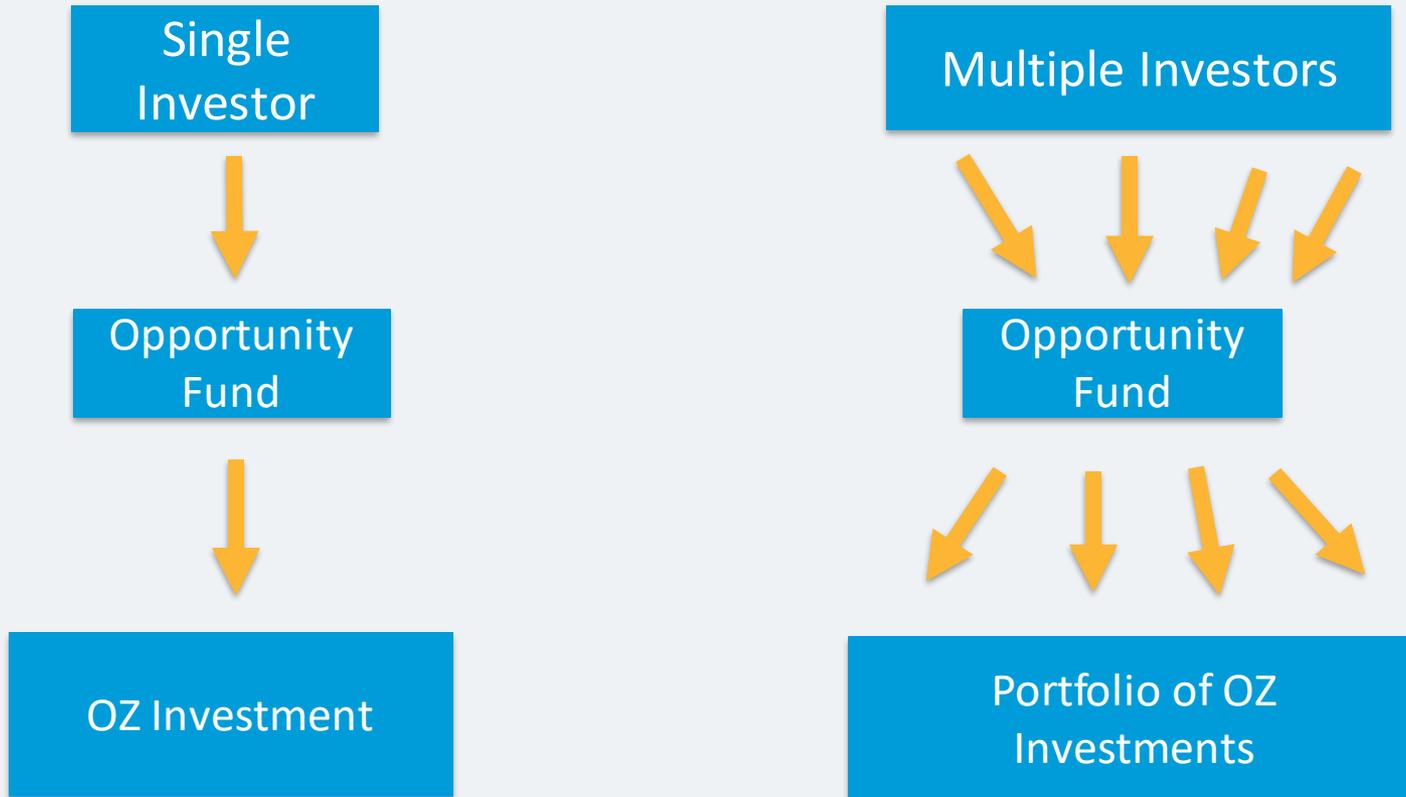
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HOW IT WORKS



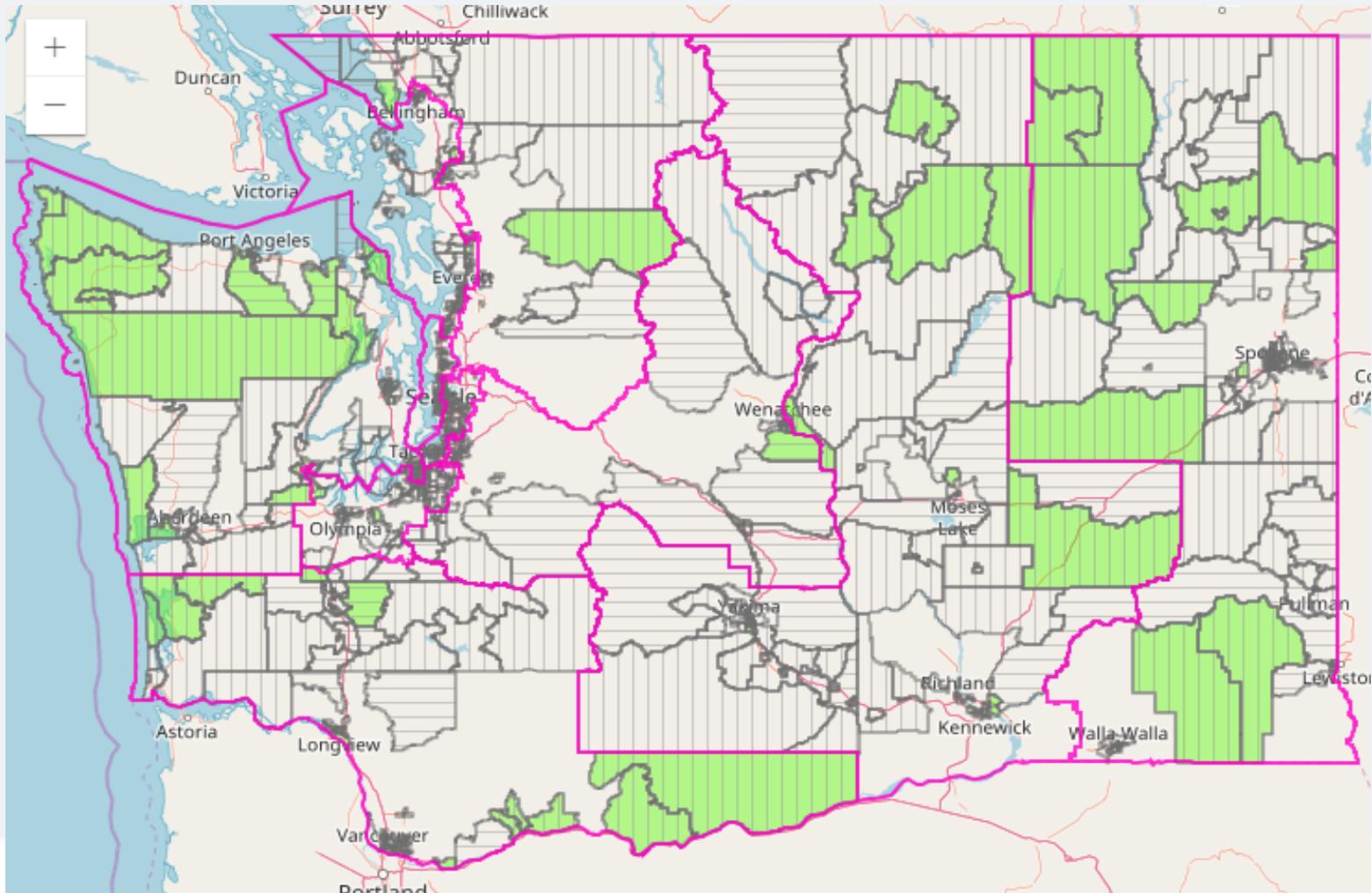
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HOW IT WORKS



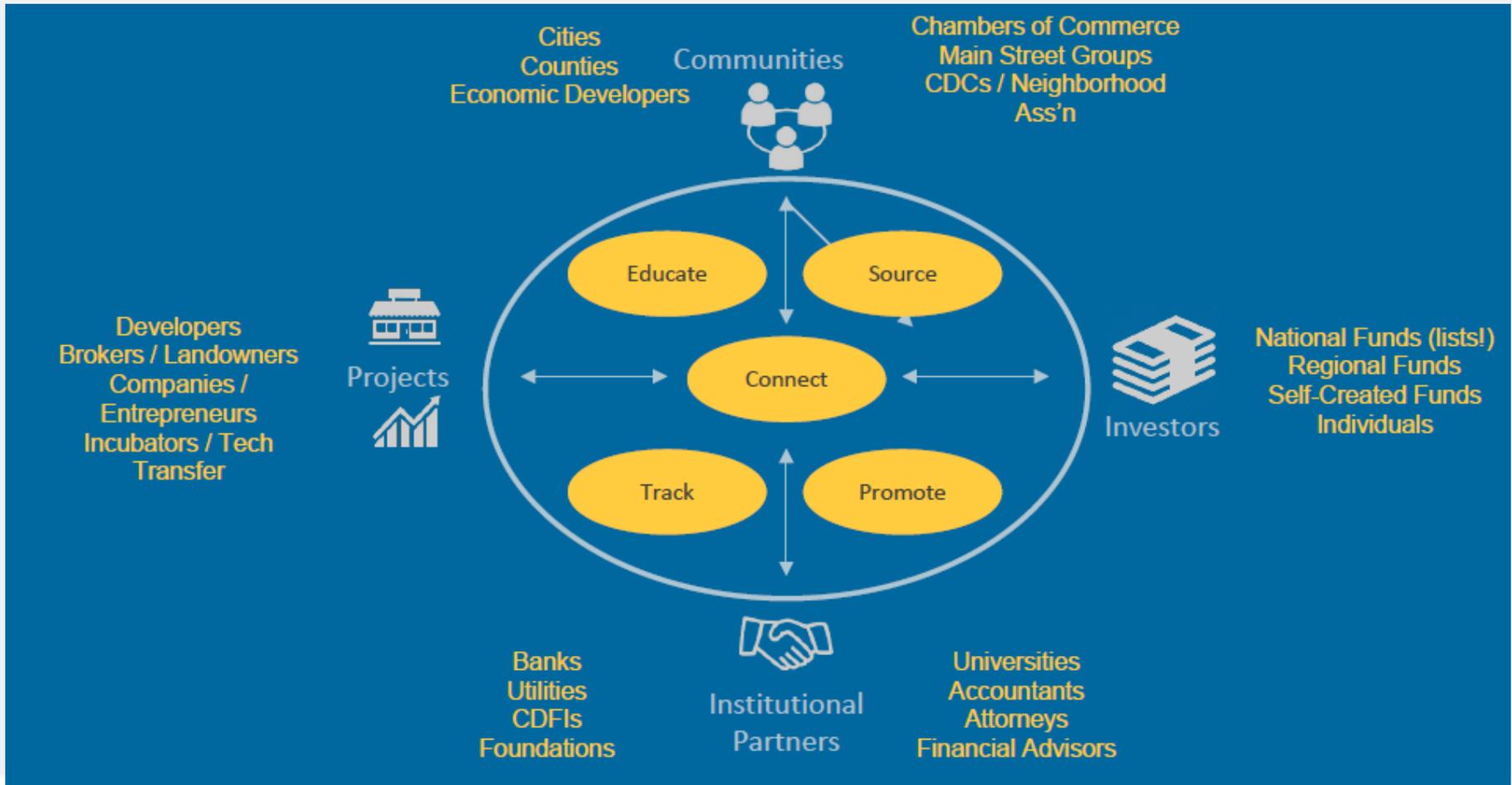
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WASHINGTON OPPORTUNITY ZONES



Opportunity Zones

ECOSYSTEM



Source: Opportunity Alabama

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A TOOL FOR BROWNFIELD REDEVELOPMENT?

- Mission-aligned with OZ, but some concerns:
- "Original Use" or "Substantial Improvement" requirement
 - Concerns:
 - "Substantial Improvement" doesn't include value of land
 - 30-month window for substantial improvement too short
 - Possibilities:
 - "Original Use" requirement met if vacant for 5 years

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THE FINE PRINT: TIMING

- Investment in QOF must take place within 180 days of realizing capital gain
- Property must be acquired after 12/31/2017
 - Must be purchased by an unrelated party (20%)
- Taxpayers can invest until 6/30/2027 and still receive the 10-year benefit
- “Safe harbor” allows project to take 31 months to spend OZ investment, given a written plan

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THE FINE PRINT: ELIGIBILITY

- Real estate or operating business
- No “sin” businesses (i.e. liquor store, tanning salon)
- Can be new construction or rehabilitation
 - Must result in “original use” of property, or substantial improvement (double basis in building)
- Businesses must meet certain location criteria based on hours worked or wages paid within the zone

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DRAFT REGULATIONS

- Round 1 of Draft regulations was released in October 2018, and Round 2 released April 2019
- Links:
 - [Round 1 Draft Regulations](#)
 - [Round 2 Draft Regulations](#)
 - QOF draft self-certification form ([IRS Form 8996](#))
 - Updates to [IRS FAQs](#)

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CHALLENGES

- Lacked **clear** federal guidance until recently
- **Gentrification** concerns in some areas (i.e. downtown Seattle)
- **No** guarantees for investment capital
- Opportunity Zone Investments will provide **only a portion** of needed capital

Opportunity Zones

CONTACT INFORMATION

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